DEMOGRAPHIC AND SOCIAL TRENDS: IMPLICATIONS FOR FEDERAL SUPPORT OF DEPENDENT-CARE SERVICES FOR CHILDREN AND THE ELDERLY

Staff Analysis

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SUMMARY

During this decade, a combination of demographic, economic, and social trends will increase the demand for dependent-care services for young children (under age 10) and elderly persons with health problems or functional limitations. This paper analyzes the likely changes in demand, examines their implications for federal policy, and discusses possible federal responses.

Contributing to an overall increase in the demand for nonfamily dependent-care services (such as day care for children and homemaker services for the dependent elderly) will be a rapid growth between 1980 and 1990 in the numbers of young children and elderly individuals--especially, those over age 80. Continued growth in the labor-force participation of women and in the proportion of young children living in single-parent households is expected to exacerbate the impact of these population changes, by leading a greater proportion of families to seek care by individuals or organizations outside the family. Moreover, the number of young children and elderly persons living in poverty will probably increase, perhaps substantially, over the decade. Finally, while changes in the supply of dependent-care services are difficult to project, it is likely that in the absence of federal intervention the supply of care accessible to lower-income families will not keep pace with the increase in demand.

Taken together, these trends suggest that a federal response could be a major determinant of the access that many of the growing number of young children and dependent elderly--especially those with low incomes--will have to nonfamily care. Altering the current federal programs that support dependent-care services, to increase targeting or efficiency while maintaining present funding levels, could accommodate part, but not all, of the increased demand. Expanding federal support could further reduce the problem, but at the cost of increasing the deficit, raising taxes, or requiring offsetting reductions in other federal programs.

FACTORS AFFECTING DEMAND FOR DEPENDENT-CARE SERVICES

Four factors are likely to increase the demand for dependent-care services during the 1980s:

- Shifts in the age structure of the population;
- A concomitant increase in the number of elderly with health problems and functional limitations;
- Changes in family composition; and
- Trends in employment.

During the 1980s, the number of young children is expected to increase by roughly 4.8 million, of whom almost 3.4 million will be under age six. During the same period, the total elderly population is expected to grow by 6.3 million, with the old-elderly population accounting for roughly 2.3 million of that increase. One consequence of the growth and aging of the elderly population is likely to be a rise in the number of elderly with health problems and functional limitations.

Changes in household composition expected during the remainder of the decade are likely to increase the demand for dependent-care services still further. In the case of young children, most important is the expectation that the proportion living in single-parent (usually, mother-only) households will continue to rise--albeit at a slower rate than during the 1970s--resulting in roughly 3 million more children under age 10 living in single-parent families in 1990 than in 1980. Moreover, about half of this increase will be children under age six. Among the elderly, the most important trend in household composition will be the increased proportion of individuals (mostly women) living alone--or with someone other than a spouse--that the aging of the elderly population will likely bring.

A continued increase in the labor-force participation of women is also likely to have a substantial impact on the demand for non-family dependent care. Continuation of current trends would result in a sizable increase in the number of young children reared by two employed parents or by an employed only parent. The number of children under age six living in such households could increase by about 3.4 million between 1980 and 1990, while the number living with two parents, only one of whom is in the labor force, could actually decline by nearly 1 million (see Summary Table 1). Continued growth in the labor-force participation of women--particularly married women--might also reduce the availability of family members to care for dependent elderly persons. On the other hand, the extent to which newly employed women would otherwise be caring for elderly relatives is unclear.

SUMMARY TABLE 1. NUMBER AND PERCENT OF CHILDREN UNDER AGE SIX, BY NUMBER OF PARENTS IN THE HOUSEHOLD AND LABOR-FORCE STATUS OF MOTHER, 1980 AND PROJECTIONS FOR 1990 (Children in thousands).

	1980	1990	Change	
			Number	Percent
Children with Two Parents, Mother Not in Labor Force	8,435	7,594	-841	-10
Children with Mother Only, Not in Labor Force	1,219	1,609	390	32
Children with Two Parents, Mother in Labor Force	6,930	9,394	2,464	36
Children with Mother Only, in Labor Force	1,777	2,786	1,009	57
Other[a/]	1,268	1,614	346	27
Total Children	**19,629**	**22,997**	**3,368**	**17**

SOURCE: Text Tables 2 and 3.

a. This category includes children living with their fathers only as well as those living with neither parent.

FACTORS BEARING ON FEDERAL SUPPORT FOR DEPENDENT-CARE SERVICES

Perhaps the most significant factor bearing on a federal response to the likely increase in demand for dependent-care services is that the number of young children and dependent elderly persons living in poverty will probably increase between 1980 and 1990, perhaps by a large amount.

The number of young children living in poverty will be determined by the overall growth in the population of young children, the increasing proportion of young children living in mother-only households, and general economic conditions. The proportion of children in female-headed households living in poverty is consistently high and varies relatively little with economic cycles: roughly half of all children under 18 in such households, and between 61 and 66 percent of children under 6, fell below the poverty line in each year from 1971 through 1981. On the other hand, the poverty rate among young children in male-headed households has shown more sensitivity to economic conditions. Accordingly, the growth in the population of young children, coupled with the shift of the population of young children toward single-parent households, can be expected to increase the number of young children in poverty; improvement in the economy will tend to decrease it, primarily by lowering the poverty rate among male-headed households.

Barring a stronger economic recovery than anticipated, however, the combined effect of these three factors is likely to be appreciably more young children in poverty. For example, if the poverty rates for both male- and female-headed households in 1990 equalled their 1979 (pre-recession) levels, the number of children under age six living in poverty could increase by about 1 million between 1980 and 1990 (see Summary Table 2).

SUMMARY TABLE 2. NUMBER AND PERCENT OF CHILDREN UNDER AGE SIX IN POVERTY IN 1980 AND PROJECTIONS FOR 1990 BY AGE AND HOUSEHOLD TYPE, ASSUMING 1990 POVERTY RATES EQUAL TO THOSE IN 1979 (Children in thousands; rates in percents)

	1980		1990[a]		1980 to 1990		
	Number in Poverty	Percent in Poverty	Number in Poverty	Percent in Poverty	Total Additional Children	Additional Children in Poverty	Additional Poor as Percent of Total Additional
All Households	3,950	20	4,918	21	3,533	968	27
Female-Headed	1,953	65	2,711	62	1,399	758	54
Male-Headed	1,997	12	2,207	12	2,135	210	10

SOURCE: Current Population Survey, Series P-60 publications and unpublished tabulations; and Tables 1 and 2 of this report.

a. 1990 poverty rates for each household type (male- and female-headed) equal to corresponding 1979 rates, to reflect the most recent pre-recession period. Overall poverty rate in 1990 does not equal 1979 rate because of the increasing proportion of children in female-headed households.

An increase--perhaps sizable--in the number of elderly persons in poverty is also a clear possibility. Although the poverty rate among the elderly is lower today than in 1970, much of the decline occurred early in the 1970s, and the rate increased again in both 1979 and 1980. Whether the rate will stay constant, decline again, or increase further is unknown, but unless it declines rapidly the growth in the elderly population will lead to an increase in the number of elderly persons in poverty. For example, unless the poverty rate among the elderly declines by at least one-fifth by 1990 (to a rate of 12.3 percent), more elderly persons will be living in poverty in 1990 than in 1981. Moreover, factors that now contribute to the high poverty rate among the elderly--such as the large number of unmarried elderly women--will continue to affect the elderly population throughout the decade.

Likely trends in the private supply of services and in support by state and local governments also bear on the importance of a possible federal response to the increased demand for dependent-care services. While future supply is hard to predict, it may not fully keep pace with demand in the absence of federal intervention. In that case, average prices would rise, and families whose incomes did not keep up might shift to lower-quality care. Support by subnational governments is also unlikely to keep pace with demand, given the fiscal problems of many state and local governments and the uneven concentration of dependency-prone populations in some jurisdictions.

ISSUES AND OPTIONS CONCERNING A FEDERAL RESPONSE

Several questions arise in considering any potential federal response to the increasing demand for dependent-care services. One is whether to increase federal support of those services. If the Congress decided to provide additional support, it could choose between direct-expenditure and tax-expenditure approaches to dependent care; each approach has advantages and disadvantages. Finally, there would be a variety of specific options for structuring any new services.

Issues

Although a portion of the increased demand for services might be accommodated by altering present federal programs to make them more efficient or more carefully targeted on those in greatest need, changes of this sort would probably be insufficient to keep pace with the increase in demand. On the other hand, possible increases in the level of federal support would have to be appraised in the light of current fiscal stringency. Any increase in federal support would mean an increase in the deficit unless increases in taxes or reductions in other federal programs were made.

If federal support for dependent-care services did not keep pace with the anticipated increase in demand, however, some low- and moderate-income families would be likely to purchase lower-quality or fewer services. In the case of child care, this could entail a shift to more informal care, to lower-quality and less supervision, and, in some instances, to leaving children unsupervised. Although the implications of such changes are not fully known, it is likely that the physical, emotional, and educational needs

of the children would be met less well. For dependent elderly persons remaining at home but receiving no services, aspects of care such as hygiene and diet could suffer. A lack of services could also hasten their institutionalization--affecting their quality of life and, in some cases, imposing costs on federal and state governments through Medicaid.

If the Congress decided to increase federal support of dependent-care services, it could do so through tax expenditures, direct expenditures, or some combination of both. Targeting benefits on low-income families is likely to be more practical with direct-expenditure programs than with tax expenditures because of the nature of the tax system. Only about 7 percent of the 4.6 million families making use of the current dependent-care tax credit had incomes below $10,000 in 1981. Making the credit refundable would increase the usefulness of the credit to some low-income families, but the long delay before reimbursement would make even a refundable credit useless for some. Moreover, experience with the earned income tax credit (EITC) indicates that an advance-payment provision does little to alleviate this problem.

On the other hand, tax expenditures have the advantage of offering recipients greater flexibility in choosing the type of care they prefer, with the potential of lessening the influence of the government in those choices. They also can be an effective means of directing aid to middle- and lower-middle-income families. Moreover, tax expenditures might in some instances encourage relatives to contribute to care rather than turn to publicly supported services.

Options for Structuring New Services

If additional support was provided through either tax expenditures or direct expenditures, the Congress would face a number of difficult decisions about how to structure that aid to maximize its effectiveness.

Child Care. One central decision in providing support for child care would be that of targeting by income. Given likely funding limitations and the rapid growth in the number of young poor children, the extent of targeting by income would be a critical determinant of the proportion of such children receiving supported services. A second decision stems from the fact that this decade will see increases in the demand for a variety of types of care, ranging from infant care to after-school care; the Congress could either specify the types of care to be supported or leave such decisions to an executive agency or to subnational governments. Finally, the impact of a federal initiative would hinge in part on its ability to focus some funds on lower-cost forms of care and to stimulate private alternatives.

One possible response would be to alter current programs to increase their cost-effectiveness or their degree of targeting. For example, the Human Services Block Grant (HSBG)--which provides funds to states to finance a broad range of social services--could be altered to reestablish a day-care setaside, channel funds into lower-cost forms of day care, require targeting of services on low-income families, or prescribe diversification of services to include after-school care or infant care. Total support could be

expanded through increased funding of current programs, such as Head Start or the HSBG program, or through new programs, such as a dependent-care voucher system. Finally, tax incentives or loans could be used to encourage employment-based day care, and the exclusion of fringe benefits from taxation could be altered to encourage more flexible work hours, thereby lessening dependence on non-family care.

Dependent Care for the Elderly. In the case of the elderly, a central issue would be the fact that the dependent elderly are difficult to identify and our current definitions of dependency are unreliable. Accordingly, a key decision on a federal initiative would be how to limit support to those truly dependent. In addition, to use funds most efficiently, a federal initiative would have to be designed to avoid incentives for the elderly in order to alter their living arrangements to substitute public care for care by relatives. Finally, since the needs of persons living alone, those living near relatives, and those sharing a household with relatives are different, a federal initiative would need to embody considerable flexibility to serve all three groups effectively.

Specific options for the elderly could include either direct expenditures or tax expenditures. Increasing direct expenditures could provide a comprehensive program to help moderately disabled elderly remain in their homes, although such an option would be costly. To reduce such costs, eligibility could be limited to those with the most severe disabilities or to those with low incomes (for example, through the Medicaid

program), or beneficiaries could be required to share in the costs. To further limit the cost of any new program of dependent care, direct provision of services could be financed by reducing other health or social service programs. Such a refocusing might be difficult, however, since much of the social services now provided to the elderly represent some form of dependent care. Finally, tax expenditures could be used to provide incentives for relatives to care for their dependent elderly. While such benefits would allow for great flexibility, they often would not aid those with low incomes and might only introduce a public subsidy for care that would have been provided anyway.

INTRODUCTION

During the 1980s, demographic, economic, and social trends will affect the demand for social services. This analysis focuses on two areas of social services which are particularly likely to be subject to increasing demand: day-care services for young children (under age ten), and dependent-care services for elderly persons with health problems or functional limitations. Day-care services for young children include after-school care for elementary school students as well as day care for infants and preschoolers by individuals outside of the child's nuclear family. Dependent-care services for physically impaired elderly persons would include--but would not be limited to--chore and homemaker services, home-delivered meals, and companionship programs. Some of these services could involve coordination with home health-care services as well.

Meeting the increased demand for these services could pose difficult decisions for the Congress, since much of the increased demand will occur in groups that frequently rely on federally supported services at present--such as very young children in poverty. Some, but not all, of the increase in demand might be met at current funding levels by increasing the efficiency or targeting of current federal support. For the rest, if growth in the deficit is to be avoided, higher expenditures would need to be offset elsewhere in the budget--through reductions in direct-expenditure programs, reductions in tax expenditures, or increases in tax rates.

The remainder of this paper is divided into three parts. The first part discusses factors that underlie likely increases in demand. The second part of the paper discusses implications of these changes in demand, and the third examines some options for an altered federal role.

PART I. FACTORS AFFECTING DEMAND FOR DEPENDENT-CARE SERVICES

Overall demand for dependent-care services will increase in the 1980s because of a variety of demographic, economic, and social factors. Other factors--such as poverty rates--will determine how much of the new demand is channelled toward federally supported services rather than the private market. This part examines each set of factors separately.

FACTORS AFFECTING OVERALL DEMAND

Four concurrent trends will affect the future demand for dependent-care services:

- Changes in the age structure of the population;
- A concomitant increase in the number of elderly with health problems and functional limitations;
- Changes in family composition; and
- Trends in employment.

Changes in the Age Structure of the Population

During the 1980s, the nation's population will grow by 10 percent and its age structure will shift markedly, resulting in the simultaneous growth of two of the age groups most frequently in need of some form of dependent care: young children and the elderly (see Table 1). In both cases, the most

TABLE 1. AGE STRUCTURE OF THE POPULATION IN 1980 AND PROJECTIONS FOR 1990

Age	Population (thousands)		Percent Distribution		Change 1980 to 1990	
	1980	1990	1980	1990	Number	Percent
All Ages	226,505	249,731	100	100	23,226	10
5 years and under	19,629	22,997	9	9	3,368	17
6-9	13,414	14,802	6	6	1,388	10
10-14	18,241	16,776	8	7	-1,465	-8
15-18	16,712	13,176	7	5	-3,536	-21
19-24	25,762	22,348	11	9	-3,414	-13
25-29	19,518	21,503	9	9	1,985	10
30-39	31,521	42,007	14	17	10,486	33
40-49	22,757	31,814	10	13	9,057	40
50-59	23,323	21,869	10	9	-1,454	-6
60-64	10,086	10,639	5	4	553	5
65-69	8,781	10,006	4	4	1,225	14
70-74	6,797	8,048	3	3	1,251	18
75-79	4,793	6,224	2	2	1,431	30
80 years and over	5,174	7,521	2	3	2,347	45

SOURCE: U.S. Bureau of the Census, unpublished projections.

NOTE: Figures may not be comparable across columns because of rounding.

rapid growth is expected to be among subgroups requiring the most dependent care: very young children (age 5 and under) and the "old elderly" (80 years old and over).1/ The number of old elderly is expected to increase by 45 percent, or about 2.4 million, over the decade. In proportional terms, the growth of the population of very young children is expected to be smaller--about 17 percent. But because this group was much larger than the old-elderly group in 1980, the numerical increase will be much larger--nearly 3.4 million.2/

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1. The projections shown in Table 1 are based on the Census Bureau's middle-level series, which assumes an average lifetime birthrate of 1.9 births per woman of childbearing age (15-44) and an average life expectancy at birth of 79.6 years in 2050. The projections also assume a net immigration rate of 450,000 per year. The latter is an arguable assumption, given the lack of information on illegal immigration, but using alternative Census projections with radically different immigration estimates would not alter the basic conclusions presented here.

2. The projected growth in the population of very young children is less certain than the anticipated growth of the old-elderly population. Unless there are marked shifts in mortality trends, the growth in the old-elderly population is largely dependent on the known number of people aged 70 and above in 1980. Growth in the population of young children, however, depends in part on more speculative estimates of fertility rates. The growth in the number of children projected here reflects growth in the number of women of child-bearing age as the "baby boom" cohort ages, as well as an anticipated modest increase in the total fertility rate, from 1,827 lifetime births per 1,000 women in 1980 to 1,942 lifetime births per 1,000 women in 1990. Should this assumption about trends in fertility prove substantially wrong--which is possible, given the historical instability of birth rates--the number of very young children in 1990 could be quite different than projected here.

The Child Population. During this decade, the population of children under age 10 is projected to increase by 14 percent--a notable departure from the 1970s, when the number of young children declined by 11 percent. The number of very young children (age 5 and under) is growing particularly rapidly and will probably account for more than two-thirds of this increase. In contrast, the 10- to 18-year age group is likely to decline by about 14 percent. Following 1990, however, as the children born during the 1980s mature, the population under age 6 is expected to shrink again and the growth in the early elementary school age group (ages 6 through 9) will probably slacken, while the 10- to 18-year age group is expected to expand.

The Elderly Population. The number of persons age 65 and over will continue to increase during the 1980s, although at a slightly slower rate than during the decade just ended. Moreover, the average age of the elderly will increase; over a third of the total growth in the elderly population will be the result of the rapid increase in the number of old-elderly persons. Overall, the elderly population is expected to rise from 25.5 million in 1980 to 31.8 million by the end of the decade, or from 11.3 percent to 12.7 percent of the total population. Those age 80 or more comprised 20 percent of the elderly population and 2 percent of the total population in 1980; in 1990 they will comprise 24 percent of the elderly population and 3 percent of the total population.

Increasing Incidence of Functional Limitations Among the Elderly

Estimates of the current proportion of noninstitutionalized elderly with physical limitations vary from about 18 to 43 percent of the population age 65 and over, reflecting in part the difficulty of defining disability. If the definition is inability to perform usual activities or limitation on the amount or kind of activitities possible, about 43 percent of the noninstitutionalized elderly are disabled. More stringent definitions based on inability to conduct major activities such as work or keeping house suggest that the proportion requiring help is closer to one-fifth--or 4.8 million persons.[3] This group contains over 2 million bedfast or homebound persons who are as functionally impaired as those in institutions.[4]

As the old-elderly population grows, the incidence of debilitating health problems and functional limitations is likely to increase. For example, while about 5 percent of the elderly are in institutions at any one time, this proportion rises steadily with age. Among those 85 and older, roughly 20 percent are institutionalized.[5] Among the noninstitutionalized elderly, the proportion with physical limitations also rises steadily with age.

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3. Health Care Financing Administration, "Long Term Care Background and Future Directions," January 1982.

4. Ethel Shanas, "The Family as a Social Support System in Old Age," The Gerontologist (1979), pp. 169-74.

5. Institute of Medicine, A Policy Statement: The Elderly and Functional Dependency, National Academy of Sciences (June 1977).

On the other hand, it is possible that a typical 80-year-old in the year 1990 will be healthier than now. Expansions in life expectancy may actually decrease the periods of dependency, if onset of chronic illnesses is also postponed.

Changes in Household Composition

Changes in the composition of families of young children and the old elderly will influence the demand for dependent-care services, because they will determine the availability of other family members to provide care.

Changes Affecting Young Children. The most important trend affecting the demand for child-care services is the expectation that the proportion of young children living in single-parent (in most cases, mother-only) households will continue to rise, albeit at a slower rate than during the 1970s. This increase, coupled with the growing number of children under age 10, could result in an increase of roughly 3 million children under 10 in single-parent families between 1980 and 1990.[6] Contributing to this anticipated growth will be continued high rates of divorce and separation among couples with children, and growth in the number of births to unwed mothers.[7] To the extent that the new single parents are employed

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6. Projections of the number and proportion of children living in various types of households are necessarily highly uncertain. See Appendix A for a description of the projection method used to obtain the 1990 estimates used here.

7. U.S. Department of Health and Human Services, National Center for Health Statistics, Advance Report, vol. 30, no. 9 (August 29, 1981).

(discussed in more detail below), this portends a rapid increase in the demand for daytime care for children under 6 and after-school care for children 6 through 9.

In recent years, the proportion of children living in single-parent families has been somewhat greater, and has been growing more rapidly, in the 6-through-9 age group than in the under-6 age group. Because the under-6 group as a whole is larger, however, children in single-parent families are actually more numerous in the younger age group (see Table 2). By 1990, the number of children under 6 in single-parent families may reach 4.8 million (21 percent), while the number of children 6 through 9 in such families may reach 4.1 million (28 percent). (The number of children under 10 living with neither parent is also rising, particularly in the under-6 age group. Apart from those living in institutions, however, little is known about the household circumstances of this group of children.)[8/]

The extent to which this growing pool of single-parent families turns to organizations or to individuals outside of the family for child-care services will depend to some degree on the presence or absence of teenaged

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8. The March 1982 Current Population Survey (CPS), which uses a revised set of questions to ascertain relationships within households, revealed that a sizable number of children who previously were thought to be living with neither parent are in fact living with one parent, usually the mother, who is neither the household head nor the spouse of the head. (That is, the child and mother are a "subfamily" within the household.) This could occur, for example, when an unmarried mother and her child live with the mother's parents. Since the numbers used here are all based on the old CPS questions, some portion of the children in the "other" category most likely should be classified in the "one parent present," usually "mother only" category.

TABLE 2. NUMBER AND PERCENT OF CHILDREN IN HOUSEHOLDS OF DIFFERENT TYPES, IN 1970 AND 1980 AND PROJECTED FOR 1990, BY AGE GROUP (Numbers in thousands)

Family Type	1970 Actual	1970 Percent	1980 Actual	1980 Percent	1990a/ Projected	1990a/ Percent
All Children Through Age 9						
Both Parents Present	32,127	87	25,786	78	27,276	72
One Parent Present	3,958	11	5,975	18	8,860	23
Mother only	3,704	10	5,614	17	8,358	22
Father only	254	1	361	1	502	1
Other	1,046	3	1,273	4	1,663	4
Total	37,131	100	33,035	100	37,799	100
Children Under 6						
Both Parents Present	18,212	87	15,365	79	16,988	74
One Parent Present	2,116	10	3,209	16	4,766	21
Mother only	1,998	10	2,996	15	4,395	19
Father only	118	1	213	1	372	2
Other	669	3	890	5	1,242	5
Total	20,997	100	19,463	100	22,997	100
Children 6 Through 9						
Both Parents Present	13,915	86	10,421	77	10,308	70
One Parent Present	1,842	11	2,766	20	4,103	28
Mother only	1,706	11	2,618	19	3,939	27
Father only	136	1	148	1	164	1
Other	377	2	383	3	391	3
Total	16,134	100	13,572	100	14,802	100

NOTE: Components may not sum to totals because of rounding.

SOURCE: 1970 and 1980 figures are from unpublished Census tabulations based on the decennial censuses. 1990 projections are adapted from estimates of the proportion of children under 18 in each type of household in Paul C. Glick, "Children of Divorce in Demographic Perspective," Journal of Social Issues, vol. 35, no. 4 (1979), pp. 170-82.

a. The projections for 1990 are subject to a considerable margin of error. See Appendix A for an explanation of this point and a description of the projection method.

siblings. Teenagers, while generally unable to provide full-time care for very young children, could in many cases provide after-school care for children in the 6-through-9 age group. It is likely, however, that a declining proportion of young children will have teenaged siblings during the rest of the decade, since a greater proportion of young children in 1990 should be first or second children. This is reflected in the nation's projected age distribution in 1990, shown in Table 1: the population age 10 through 18 is expected to shrink by nearly 5 million between 1980 and 1990.

Trends Affecting the Elderly. As a result of purely demographic changes, the growth of the elderly population will likely be accompanied by an increase in the number and proportion of elderly individuals living either alone or with someone other than a spouse. Most of those living without a spouse, particularly among the old elderly, will be women.

This anticipated growth in the proportion of the elderly living without a spouse results from the increasing average age of the elderly population, the sizable and growing difference in life expectancy between men and women, and the fact that husbands are generally older than their wives. In 1980, 65-year-old men had a life expectancy of 14 years, while women of the same age had a life expectancy of 18 years. By 1990, life expectancy at age 65 is projected to increase to 15 years for men and to 20 years for women. This widening difference in life expectancy, coupled with the increasing average age of the elderly, will produce a growing imbalance

between the numbers of elderly men and elderly women, particularly in the over-80 population. Moreover, the age difference between husbands and wives will further exacerbate that imbalance.

Lack of a spouse need not lead elderly individuals to depend on organizations or individuals outside of the family for care. For example, about 13 percent of noninstitutionalized older persons currently live with other relatives, usually adult children. This type of living arrangement becomes more common as individuals age, with roughly one-fourth of those age 80 and older living with nonspouse relatives, as compared to one-ninth of those age 65 to 79. Children outside the household may also help care for their older parents--about 55 percent of the elderly now have children who live less than half an hour away by car.

Contradictory changes make it difficult to predict what proportion of the elderly can expect aid from children in the future. In the 1980s, persons between 65 and 80 will, on average, have more adult children than in the past, because the baby boom generation will be reaching middle age. On the other hand, persons who survive beyond the age of 80 may outlive their children. And, when the children themselves are elderly, they may lack financial resources or have physical problems that limit the amount of assistance they can provide.

Trends in Employment

Recent trends in labor force participation, should they continue, would have a substantial impact on the demand for child-care services. They

might also have an effect on demand for dependent-care for the elderly, but that relationship is less clear.

Maternal Employment. If present trends continue, the number of young children reared by two employed parents or by a single employed parent, rather than by two parents only one of whom works outside the home, will increase during the 1980s. This increase will reflect the combined effects of three trends: the growth in the population of young children; the increasing proportion of young children living in single-parent households; and the increasing rate of labor force participation of women with children.9/ Projections of labor-force participation, however, are dependent on such factors as growth in overall employment and on the availability of child care.

Labor force participation grew rapidly during the 1970s among mothers with children below the age of six, and this growth is projected to continue--albeit at a slower rate--during the 1980s (see Table 3). The labor force participation rate is substantially higher among mothers with no husband present, but it has been growing more rapidly among mothers with husbands present. By 1990, well over half of all mothers of children under age six are projected to be in the labor force--55 percent of those with husbands present, and 63 percent of those with no husband in the household.

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9. Mothers rearing children alone are both more likely to be in the labor force and more likely to be employed full-time than are married mothers who live with their husbands, but employment rates for the latter group have also increased markedly since 1970.

TABLE 3. RATES OF LABOR FORCE PARTICIPATION OF MOTHERS, BY AGE OF YOUNGEST CHILD AND HOUSEHOLD TYPE: 1970, 1980, AND PROJECTIONS FOR 1990 (Rates in percentages)

	Actual		Projected
	1970	1980	1990
Households With Children Under Age 6			
Married Mothers, Husband Present	30.3	45.1	55.3
Other Ever-Married Mothers[a]	50.7	59.3	63.4
Households With Children Age 6 Through 17 (none younger)			
Married Mothers, Husband Present	49.2	61.7	70.1
Other Ever-Married Mothers[a]	67.3	74.2	73.8

SOURCES: Rates for 1970 are from Bureau of Labor Statistics, Marital and Family Characteristics of Workers, March 1970, Special Labor Force Report 130, 1971, Table F. Rates for 1980 are from Bureau of Labor Statistics, News, 81-522, November 15, 1982, Table 2. Projections for 1990 are from Ralph Smith, "The Movement of Women into the Labor Force," in Ralph Smith, ed., The Subtle Revolution (The Urban Institute, 1979).

a. Numbers exclude never-married women with children. Data on such women has been available only since 1976, and projections of their labor force participation in 1990 are unavailable. The limited data available, however, indicate that the labor force participation rate of never-married mothers is currently similar to that of married mothers with husbands present. Moreover, the data suggest that their labor force participation may be growing slowly. In 1976, about 42 percent of never-married women with children were in the labor force; this had grown to 44 percent in 1980 and to 45 percent in 1982. In 1976, about 54 percent of never-married women with children age 6-17 were in the labor force; this had grown to 68 percent in 1980 but had fallen to 64 percent in 1982. Bureau of Labor Statistics (BLS), Marital and Family Characteristics of the Labor Force in March 1976, Special Labor Force Report 206, Table 2; BLS, News, 81-522, November 15, 1981, Table 2; and BLS, Division of Employment and Unemployment Analysis, unpublished tabulations of the employment status of women in March 1981 and March 1982.

Among mothers with children between 6 and 17 (but none younger), labor force participation is higher yet.[10] Again, labor force participation is higher among mothers with no husband present but is growing more rapidly among those with husbands in the household (see Table 3). In 1990, nearly three-fourths of mothers of children age 6 through 17 are expected to be in the labor force--70 percent of those with husbands in the household, and 74 percent of those with no husband present.[11]

Such an increase in the labor force participation of mothers, coupled with the growth in the population of children under 6, would sharply increase the number of very young children with both parents--or, in the case of one-parent households, the only parent--in the labor force. The number of children under age 6 with both parents in the household, but with a mother in the labor force would increase by nearly 2.5 million--a 36 percent rise between 1980 and 1990 (see Table 4). The number of very young children in mother-only households with mothers in the labor force would increase by 1 million, or 57 percent.

Employment of Potential Caretakers of the Dependent Elderly. The continuing increase in the labor force participation of women--particularly married women--might also reduce the availability of family members to

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10. The 6-through-9 age group discussed earlier is not separated here from the entire 6-through-17 age group because of a lack of relevant data.

11. Note that these projections assume no further growth in the labor-force participation rate of mothers with children aged 6 through 17 and with no husband present. Never-married women with children are excluded from this table. See footnote 'a' to Table 3.

TABLE 4. NUMBER AND PERCENT OF CHILDREN UNDER AGE 6, BY NUMBER OF PARENTS IN THE HOUSEHOLD AND LABOR-FORCE STATUS OF MOTHER, 1980 AND PROJECTIONS FOR 1990 (Numbers in thousands).

	1980	1990	Change	
			Number	Percent
Children with Two Parents, Mother Not in Labor Force	8,435	7,594	-841	-10
Children with Mother Only, Not in Labor Force	1,219	1,609	390	32
Children with Two Parents, Mother in Labor Force	6,930	9,394	2,464	36
Children with Mother Only, in Labor Force	1,777	2,786	1,009	57
Other[a/]	1,268	1,614	346	27
Total Children	**19,629**	**22,997**	**3,368**	**17**

SOURCE: Tables 2 and 3.

a. This category includes children living with their fathers only as well as those living with neither parent.

care for dependent elderly individuals. Increases in the proportion of families with two earners results in less time for activities such as providing help to relatives. Moreover, because the role of caring for relatives has traditionally been played by women, increases in their labor force participation are particularly important. On the other hand, the children of dependent old-elderly individuals are in some instances old enough themselves to be out of the labor force.

FACTORS BEARING ON FEDERAL SUPPORT FOR DEPENDENT-CARE SERVICES

The relevance of increased demand for dependent-care services to federal support of those services (through both direct expenditures and tax provisions) will depend on a variety of factors, including:

- The economic circumstances of young children and the dependent elderly;
- The extent to which dependent individuals are concentrated in certain jurisdictions; and
- Changes in the supply of relevant services, in the absence of further federal intervention.

The Economic Circumstances of Young Children and the Dependent Elderly

Changes in the economic circumstances of young children and the dependent elderly will be a critical determinant of the importance of federal support for dependent-care services.

The Economic Circumstances of Young Children. The number of young children living in poverty has increased in recent years and is likely to grow further by 1990. Moreover, the number of young children in single-parent families living in poverty is especially likely to increase.

Projections of the poverty rate among children hinge on two factors: the number of children living in single-parent (generally, mother-only) households, and the condition of the economy. The poverty rate among children in single-parent families has been quite stable over the past decade,

with only relatively small fluctuations accompanying economic upturns and downturns. Between 50 and 53 percent of children under 18 in female-headed households, and between 61 and 66 percent of children under 6 in such households, lived in poverty in each year from 1971 through 1981. In contrast, the poverty rate among children in male-headed households varied substantially with the condition of the economy, increasing in the recession years of 1971, 1975, 1980, and especially 1981.

Accordingly, over the rest of this decade, two contrary trends will affect the incidence of poverty among young children. The continued increase in the proportion of children living in mother-only homes, coupled with the growing total number of young children, will act to increase the number of young children living in poverty. On the other hand, improvement in the economy may reduce the proportion (but not necessarily the number) of young children in poverty, primarily by lowering the poverty rate in male-headed households.

Among children under six, the combined effect of these trends is likely to be a sizable increase in the number in poverty--and perhaps a smaller increase in the proportion living in poverty--unless improvement in the economy is substantially more rapid then is now anticipated. For example, if the poverty rate among children under six in each household type in 1990 was equal to the corresponding 1979 (pre-recession) rate, the number of children under six living in poverty would increase by nearly 1 million between 1980 and 1990 (see Table 5). Twenty-seven percent of the total

TABLE 5. NUMBER AND PERCENT OF CHILDREN UNDER AGE 6 IN POVERTY IN 1980 AND PROJECTIONS FOR 1990 BY AGE AND HOUSEHOLD TYPE, UNDER ALTERNATIVE ASSUMPTIONS ABOUT POVERTY RATES (Numbers in thousands; rates in percents)

	1980		1990		1980 to 1990		
	Number in Poverty	Percent in Poverty	Number in Poverty	Percent in Poverty	Total Additional Children	Additional Children in Poverty	Additional Poor as Percent of Total Additional
1990 Poverty Rates Equal to 1979 Rates[a]							
All Households	3,950	20	4,918	21	3,533	968	27
Female-headed	1,953	65	2,711	62	1,399	758	54
Male-headed	1,997	12	2,207	12	2,135	210	10
1990 Poverty Rates Equal to 1981 Rates[b]							
All Households	3,950	20	5,885	25	3,533	1,935	55
Female-headed	1,953	65	2,896	66	1,399	943	67
Male-headed	1,997	12	2,989	16	2,135	992	46

SOURCE: Current Population Survey, Series P-60 publications and unpublished tabulations; and Tables 1 and 2 of this report.

a. 1990 poverty rates for each household type (male- and female-headed) equal to corresponding 1979 rates, to reflect the most recent prerecession period. Overall poverty rate in 1990 does not equal 1979 rate because of the increasing proportion of children in female-headed households.

b. 1990 poverty rates for each household type (male- and female-headed) equal to corresponding 1981 rates, reflecting some of the impact of the current recession. (The peak rate in this recession is likely to be higher than the 1981 rate; see footnote 12.) Overall poverty rate in 1990 does not equal 1981 rate because of the increasing proportion of children in female-headed households.

growth in the under-six population would be accounted for by the increased number of very young children in poverty. (More than half of the additional very young children living in female-headed households, but only 10 percent of the growth in male-headed households, would be poor). In this case, the overall poverty rate among children under six would increase slightly over the decade, from 20 to 21 percent. (Even though the poverty rate would decrease in each household type, the increase in the proportion of children living in single-parent households would more than offset that decrease.)12/

In contrast, if poverty rates among children under age six in different types of households in 1990 equalled the corresponding rates in 1981, the growth in the number of very young children living in poverty would be nearly twice as great.13/ The number of children under age 6 living in poverty would increase by nearly 2 million from 1980 to 1990 and would account for 55 percent of the total growth in the under-six population (see Table 5). Fully two-thirds of the number of additional very young children in female-headed households would be poor, and the overall poverty rate among children under age six would climb from 20 percent to 25 percent.

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12. The decline in the poverty rate in male-headed households does not appear in Table 5 because of rounding.

13. This would most likely constitute a modest improvement from the peak poverty rates of the most recent recession, since poverty rates among young children are likely to be significantly higher in 1982 than in 1981. Reductions enacted since 1980 in real benefits under Aid to Families With Dependent Children were not effective for the most part until October 1981 or later. Those benefit reductions accordingly had little impact on the poverty rate among young children in 1981, but can be expected to have an appreciable effect on the 1982 rate.

The household incomes of young children above the poverty line are also relevant to the federal role in supporting child-care services. For example, the household incomes of young children with two working parents vary greatly, and the Congress might choose to target its support on the subset of those families with modest combined incomes. Unfortunately, however, projections of the household incomes of non-poor families with children in 1990 are unavailable.

The Economic Circumstances of the Old Elderly. Although the poverty rate among the elderly has declined substantially since 1970, much of the progress was made early in the decade. Indeed, the poverty rates among the elderly increased in both 1979 and 1980 before again falling slightly in 1981. In 1981, 15.3 percent of the elderly--about 3.9 million persons--had incomes below the poverty threshold--$5,494 for an elderly couple, and $4,359 for an elderly individual (see Table 6). Whether these poverty rates will remain constant, begin to decline again, or increase further is unknown, but even if the rate declined by one-fifth (to a rate of 12.3 percent for all persons 65 and over) by 1990, the absolute number of elderly persons living below the poverty line would be no lower than in 1981.

Although some sources of income will increase in real terms, such as newly awarded Social Security benefits, the number of poor among the elderly population may well increase as the share of women, the very old, and persons living alone rises. These groups currently exhibit the highest incidence of poverty, and persons with two or more of these characteristics

are particularly likely to be poor (see Table 6). For example, almost two-thirds of all elderly black women who lived alone in 1980 were in poverty--four times the rate for all elderly persons. This figure is only slightly lower than the corresponding figure of 68.1 percent in 1974. Moreover, even if the proportion of poor individuals in each category declines, increases in the number of older, single, nonwhite women among the elderly will probably translate into continued high absolute numbers of poor. If the proportion of the age-80-and-above population that is poor remained relatively stable at about 20 percent, there would be about 1.5 million poor in that age group alone compared to 1 million now.

TABLE 6. SELECTED POVERTY RATES WITHIN THE ELDERLY POPULATION, 1981

Individual Characteristics	Percent in Poverty	Number of Persons (thousands)
Person Age 80 and Over	21.1	987
Black Person	36.5	890
Person Living Alone	29.4	2,268
Female	18.7	2,785
Female age 80 and over	25.0	777
Black female	43.5	547
Black female living alone	62.9	342
All Elderly Persons	15.3	3,853

SOURCE: Current Population Survey.

Factors that currently contribute to the large numbers of aged poor will continue to affect the elderly throughout this decade. Unmarried elderly women have low incomes primarily as a result of their histories of low labor force participation and high concentration in low-paying jobs, characteristics that will be shared by women reaching retirement age in the 1980s. These factors lead to limited retirement coverage and low benefits from Social Security and private pensions. Moreover, a large portion of poor elderly women are widows, many of whom experience dramatic income losses upon the death of their husbands. Widows often live alone, thus facing higher per-capita living expenses than those in larger family groups.

The old elderly exhibit a high incidence of poverty primarily because they are less likely to have incomes augmented by earnings and because the non-Social Security portions of their incomes are rarely indexed for rising prices. Moreover, measures of poverty understate the precarious financial position of the old elderly, since health expenses often consume a substantial share of their incomes and, over time, deplete their resources.

In recent years, rising health care costs have meant that an increasing share of resources of the elderly must be devoted to such expenditures despite almost universal enrollment in Medicare. The average expenditure by elderly individuals for noninstitutional health care is expected to be over $1,000 in 1984, and this amount will be higher for those in poor health. Elderly couples with incomes below $10,000 therefore often devote more than one-fifth of their incomes to health expenditures.

The demographic groups among the elderly most likely to be poor and to have large health-care costs are often also those with a greater likelihood of seeking home-based services. For example, the very old are likely to be frail, and those living alone cannot depend on a spouse or other relative in the household to provide care.

Geographic Concentration of Dependent Individuals

Immigration and internal migration may lead to a continued or increased concentration of dependent individuals in certain states and in certain types of communities. Moreover, in some cases, these concentrations may occur in jurisdictions that would find it difficult to fund services for those individuals.

Immigration Trends. In recent years, immigration has had a sizable impact on both the size and the characteristics of the national population. Alternative Census projections put estimated net immigration--that is, gross immigration, less temporary immigration and less out-migration of permanent residents--at between 450,000 and 750,000 per year over the decade of the 1980s, or between 19 and 29 percent of total population growth. These recent immigrants tend to be younger than the population as a whole--accordingly, many have young children--and they tend to have lower incomes than native-born Americans.

In recent years, immigrants have tended to concentrate in a small number of states and, in some cases, in specific jurisdictions within those states. For example, of the 4.5 million permanent aliens in 1980, over 70

percent resided in six states--California, New York, Texas, Florida, Illinois, and New Jersey--which contain less than 40 percent of the total national population.

Internal Migration. Several aspects of internal migration might also lead to increased concentrations of either dependent young children or dependent old-elderly individuals in certain jurisdictions.

--Concentration of dependent young children. If the pattern of recent years continues, the decade of the 1980s will see only modest changes in the distribution of poor children under age six between central cities, non-central parts of metropolitan areas, and nonmetropolitan areas. Between 1971 and 1981, for example, the proportion of very young poor children living in nonmetropolitan areas declined somewhat (from about 40 to 36 percent), while the proportion living in metropolitan areas increased correspondingly (from 60 to 64 percent). Most of this shift reflected an increase in the proportion of very young poor children living in non-central parts of metropolitan areas (from 23 to 26 percent), rather than in central cities.

For some purposes, however, it is less important to know where the largest number of very young poor children live than to know where the poverty rate among very young children is highest--that is, where those in poverty constitute the greatest share of the total population of very young children. For example, communities in which the poverty rate is highest

may be hardest pressed to provide services to poor children, because of the larger proportion of children needing services and the correspondingly higher proportion of families contributing little to local revenues because of their low incomes.

Between 1971 and 1981, the poverty rate among children under age 6 grew more rapidly in metropolitan areas than elsewhere in the nation. In central cities, the poverty rate increased from 21 to 30 percent, while in non-central parts of metropolitan areas, it rose slightly faster but from a lower initial level--increasing from 10 percent in 1971 to 15 percent in 1981. In contrast, the poverty rate in nonmetropolitan areas increased at a slower rate--rising from 22 to 24 percent--during the same period.

--Concentration of the elderly. Recent migration patterns show that while the elderly are only about a fourth as likely to move as the non-elderly, they too have been relocating to the Sun Belt and the suburbs. Thus, states such as Florida, Arizona, and New Mexico have experienced substantial growth in their elderly populations--although of these states, only Florida has a concentration of the elderly much above the national average. On the other hand, since the elderly are less likely to move, they are also concentrated in areas that substantial numbers of young families have left, such as the farm states of the Midwest and the old industrial states of the Northeast. In addition to this interstate migration, there has also been a slight increase in the proportion of the elderly living outside of central cities.

Changes in the Supply of Dependent-Care Services

Changes in the supply of various types of dependent-care services, in the absence of further federal intervention, will affect both the accessibility and the price of those services. If demand increases to a greater degree than any change in supply, the price of private care can be expected to rise. Families will adjust to higher prices in different ways. Those whose incomes increased even more would effectively have the same or more options as now, while those whose incomes rose more slowly might shift to lower-quality care.[14/] Changes in the supply of dependent-care services are difficult to project, however.

Both child care and home-based care are labor-intensive industries drawing heavily on low-paid workers--usually women. Changes in the supply of such workers will therefore be the most important factor for determining changes in the supply of services.

Factors that would be expected to shift the supply upward are the expanding female labor force, and the increasing population of elderly women for whom employment as caretakers may be an appealing option. For child care, some young mothers may also be able to combine remaining at home with employment as informal day-care suppliers. On the other hand, if other job opportunities became increasingly available to women, some women would be expected to move out of marginal employment as

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14. State and local government support is unlikely to contribute to an increased supply of dependent-care services, since many state and local governments are facing severe fiscal constraints.

dependent-care providers, particularly to the extent that alternative jobs paid higher wages. Declining overall unemployment rates could be one factor leading to such an increase in alternative job opportunities for women and to a corresponding decline in the supply of workers in the area of dependent care. If home-based social services were marketed in combination with home health services, more skilled--and better compensated--workers might be employed. Such a movement might make employment in care for the elderly more attractive, thereby enticing more job applicants, but also increasing the cost of services.

Uncertainty in Projecting Reliance on Federally Supported Services

Several factors bearing on federal support for non-family dependent-care services are difficult to predict.

Unexpected changes in fertility rates, for example, could substantially alter the projected number of young children--or the proportion in various income brackets. In addition, patterns of family composition--such as the divorce rate among parents of young children--could differ from those projected. Similarly, unanticipated changes in mortality rates could alter the projected number of dependent elderly individuals. Unanticipated medical advances could decrease the proportion of old elderly individuals with functional limitations; conversely, if access to medical services was sharply curtailed, the number of elderly with functional limitations might increase.

Economic circumstances that are difficult to forecast could also affect the future importance of federal support for dependent-care services. For example, little is known about the future income distribution of young children or the elderly, apart from projections of the proportion living in poverty. Moreover, changes in the unemployment rate, in the type of workers most often unemployed, in the regional distribution of unemployment and income (for example, through continued declines in "smokestack" industries in the Northeast and Midwest), and in the relative wages of male and female workers could all affect the extent to which families will seek federally and other publicly supported services.

PART II. ISSUES IN DETERMINING THE FEDERAL ROLE

In considering any potential federal response to the changing economic and demographic circumstances of children and the elderly, a number of overall issues arise. After a brief description of current federal programs, this section discusses three sets of issues:

- o Whether to change the federal role;
- o Tradeoffs between direct-expenditure and tax-expenditure approaches to dependent care; and
- o Alternatives for structuring new services.

THE EXISTING FEDERAL ROLE

Federal support for dependent care and other social services is currently provided through a variety of means, including both direct expenditures and tax expenditures. These services are provided for children, the elderly, and other groups such as the mentally and physically disabled.

The largest direct social-service expenditure program is the Human Services Block Grant (HSBG)--formerly Title XX of the Social Security Act. The HSBG program provides funds to states to finance assistance for child care, foster care, housekeeping, social activities, transportation, and other social services. The combination of services delivered is at the discretion of the states. In addition, the Head Start program offers educational, medical, nutritional, and social services to preschool children, primarily serving those from low-income families. For the elderly, the Older Americans Act serves as an important source of home-delivered and congregate meals and other

social services, and the Medicare and Medicaid programs cover some home-health services that may have social-service components. Social services are also funded through a variety of mostly smaller direct-expenditure programs.

The dependent care tax credit provides a tax credit equal to a specific portion of employment-related dependent-care expenses.[1] For purposes of the credit, eligible expenses are those paid for the care of dependent children under the age of 15 and of other dependents if physically or mentally incapacitated. Expenses eligible for the credit cannot exceed $2,400 for one dependent or $4,800 for two or more dependents. The credit is intended to provide greater assistance to families with low or moderate incomes; the credit equals 30 percent of eligible expenses for families with adjusted gross incomes (AGIs) of $10,000 or less, declines to 20 percent as AGI rises to $28,000, and remains at 20 percent at higher incomes.

The federal government also subsidizes social services indirectly through means-tested income transfer programs--most importantly, through the allowance for day-care expenses in the Aid to Families with Dependent Children (AFDC) program. Under this provision, AFDC recipients with earnings are permitted to deduct child-care expenses up to $160 per month per child from their gross earnings for purposes of determining their benefit amount. This deduction lessens the reduction in benefits that the recipients'

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1. The restriction of the credit to "employment-related" expenses limits it to single employed taxpayers and married employed taxpayers with an employed spouse.

earnings would otherwise cause, thus providing a partial subsidy of day-care expenses. The total subsidy of day care provided through this mechanism, however, is substantially smaller than that provided by the dependent-care tax credit or by the larger direct-expenditure programs.

DECIDING WHETHER TO CHANGE THE FEDERAL ROLE

Increased public support for dependent-care services may be sought if high poverty rates in the growing populations of young children and dependent elderly individuals continue, particularly if prices for privately provided dependent care increase. Such support could in theory be provided by subnational governments, but many jurisdictions will face difficult fiscal conditions and disproportionate concentrations of dependent individuals.

This potential increase in demand for federally funded social services arises in a period of considerable budget stringency, however. Financing an increase in the federal role would require either increases in taxes, reductions in other federal programs, or higher federal deficits. (This analysis has thus far focused on sources of increased demands for social services; similarly, an analysis of possible revenue increases or program reductions could focus on identifying direct expenditures or tax expenditures that serve groups that are shrinking in size or whose inflation-adjusted incomes are rising. Such a discussion is, however, beyond the scope of this paper.)

On the other hand, if the federal role in the provision of dependent-care services did not keep pace with the increase in demand, the result would likely be consumption of fewer or lower-quality services by those with low and moderate incomes. In the case of child-care services, changes might include a shift to more informal care, lower quality and quantity of supervision in care, and in some instances, leaving children with no supervision. Although not all the implications are known, it is likely that such children would suffer in terms of their physical, emotional, and educational needs. For the dependent elderly, also, the issues center on their quality of life. For those receiving no services, but remaining at home, daily needs such as diet and personal hygiene might suffer. In other instances, lack of services might hasten institutionalization--lowering some aspects of their quality of life and, in some cases, increasing costs to the federal government through Medicaid.

CHOOSING BETWEEN DIRECT EXPENDITURES AND TAX EXPENDITURES FOR DEPENDENT CARE

Should the Congress choose to increase or redirect aid, it must decide whether to direct it through spending programs or through the tax system. Several tradeoffs would arise in choosing between direct expenditures and tax expenditures, including:

- The extent to which they can be used to target benefits to low-income groups; and
- Flexibility in the type of services they can support.

In essence, direct programs are better able to assist those with low incomes, whereas tax expenditures can subsidize a broader range of services and minimize the extent of government intervention.

Targeting benefits toward low-income families is likely to be more practical with direct expenditures than with tax expenditures, largely because of the structure of the personal income tax. According to the most recent estimates, only about 7 percent of the 4.6 million families using the dependent-care tax credit had incomes below $10,000 in 1981, for example, and less than 6 percent of the estimated $1.3 billion in tax credits went to these families. The major reason is that the dependent-care tax credit is not refundable--that is, it cannot exceed the amount of the family's tax liability--and most families with incomes below $10,000 pay little or no income tax.

Although more low-income families would benefit under a refundable credit, many still would not. Because most low-income families do not pay taxes, they are not easily reached through the tax system. This has been the experience of the one refundable tax credit that now exists--the earned income tax credit (EITC) for working parents with dependent children. Many do not know about the credit, do not understand how to use it, or are reluctant to deal with the Internal Revenue Service. The forms needed to use the credit can be confusing, and people who would not otherwise have to file a tax return (since they owe no tax and are due no refund) must do so to obtain the credit. A further possible problem in using the income tax system to assist low-income families is that a family does not receive the credit until tax returns are filed at the end of the year, creating a considerable hardship in some cases. In theory, an advance-payment provision might ameliorate this problem, but in practice such a change would likely have

little effect. The EITC does have a provision for advance payments from employers, for example, but very few EITC recipients --about 0.4 percent-- use this feature.

In contrast, direct-expenditure programs can be designed to serve only--or primarily--low-income families, particularly if such targeting is mandated at the federal level. In practice, however, direct-expenditure programs need not be targeted; for example, recent changes in the statute removed federal targeting requirements from the Human Services Block Grant, providing states the option of directing services toward middle- and upper-income individuals as well.

Tax expenditures have the advantage of flexibility. Tax credits or deductions may be used to subsidize a broad range of privately purchased care, while direct provision increases the role of government and limits individual choice. Moreover, favorable tax treatment may encourage relatives to contribute to the care of the dependent elderly relying on publicly provided services.

STRUCTURING FEDERAL PROGRAMS FOR DEPENDENT CARE

If additional federal efforts are undertaken to provide dependent-care assistance--either through existing or new direct-expenditure programs or through various tax expenditures--the Congress will face a number of difficult decisions about how to structure that aid to maximize its effectiveness.

Child Care. In providing support for child care, one central issue is the extent to which aid would be targeted by income. Given likely funding limitations and the rapid growth in the number of very young children in poor households, the extent of income-based targeting would be a critical factor in determining the proportion of very-low-income children receiving supported services. A second issue is how to provide the wide variety of types of care that will be in increased demand over the rest of the decade, ranging from highly labor-intensive--and correspondingly expensive--infant care to after-school care for elementary-school students. The Congress might decide to channel a certain proportion of any funding provided into each of these types of care, or it might leave that decision to an executive agency, to states, or to localities. Third, and perhaps most critical, since any increase in federal funding for child-care services is unlikely to keep pace with the expected rapid increase in demand described above, a federal initiative would have a greater impact the more it was able to focus some funds on lower-cost forms of care and to stimulate private alternatives.

Dependent Care for the Elderly. The issues that arise because of the rapid increase in the dependent elderly population are quite different. Unlike very young children, the dependent elderly cannot be identified on the basis of any simple criterion such as age. Moreover, the current definitions of dependency and need for care among the elderly are somewhat unreliable, because they are generally based on self-reported information. Accordingly, a federal initiative would need to specify how support would be limited to those who were truly dependent in order to avoid a rapid

escalation of costs (in an entitlement program) or a misallocation of limited funds (in an appropriated program). Moreover, a sizable proportion of the old elderly live alone, while others maintain their own households near another relative and still others live with relatives or other individuals. The needs of these three groups are different. Finally, federal support of dependent-care services for them might inadvertently create undesired incentives for the elderly to alter their living arrangements to substitute publicly funded care for care by relatives.

PART III. OPTIONS

In light of the demographic and economic trends outlined in this analysis, the Congress may wish to consider options for the provision of social services to young children and the moderately-disabled elderly. Options for each of these two groups are discussed separately in this section.

CHILD-CARE OPTIONS

Numerous options are available to the Congress should it decide to alter the federal role in supporting dependent-care services for young children, including:

- Improving the cost-effectiveness of existing programs;
- Targeting available resources more narrowly on those populations least able to purchase care themselves;
- Expanding federal support;
- Encouraging employer participation in the provision of child care; and
- Encouraging employment changes that might lessen dependence on nonfamily care.

Improving Cost-Effectiveness

In a time of fiscal stringency, federal expenditures could be kept at the same level but directed in a more efficient fashion. For example, the Human Services Block Grant (HSBG) could be modified to direct these funds toward less expensive forms of care than the center-based arrangements

that predominated under Title XX and presumably still predominate. This could be accomplished by requiring state agencies to distribute more of their HSBG child-care slots to family day-care homes and less to institutional care.1/ Because government reimbursement rates to day-care homes are approximately 75 percent of the rates paid to centers, more children might be served with a given level of funding if a greater share of HSBG funding was directed toward non-center arrangements.2/ This approach would also provide the same range of child-care choices to families who rely on direct subsidies as are now available to those receiving indirect subsidies through the dependent-care tax credit.

Shifting the types of child care purchased by the HSBG program could, however, increase state administrative costs, thereby possibly offsetting to some degree the increase in child-care slots that such a shift would be intended to produce. Family day-care homes tend to be less visible and less organized than day-care centers, so greater state initiative could be

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1. In 1981, 74 percent of the children who received HSBG child care were in child-care centers, which tend to be among the most expensive of existing options. For example, in Alabama, the maximum daily rate for children placed in child-care centers receiving HSBG funds was $11.00, whereas the rate for family day-care homes was $4.00. U.S. Department of Health and Human Services, Report to Congress: Summary Report of the Assessment of Current State Practices in Title XX Funded Day Care Programs (October 1981), Appendix A, Table 4.

2. Report to Congress: Summary Report of the Assessment of Current State Practices in Title XX Funded Day Care Programs.

required to provide these forms of care to HSBG families. Similarly, monitoring of family day-care establishments, to insure that state safety and quality standards were met, could prove difficult and costly. Moreover, program changes that would entail increased federal control over the use of funds would be a reversal of the recent trend toward reduced federal direction in the provision of social services.

A further step in the same direction would be to use HSBG funds to provide low-income parents with child-care vouchers redeemable at both day-care centers and some family day-care establishments. A voucher system could be set up in a variety of different ways, depending on the Congress's intent. For example, families could be charged an income-related fee for their vouchers, so that the lowest-income families paid nothing while other families paid a price that increased with income. Reimbursement differentials for different types of care could also be established, with lower reimbursement limits for lower-cost forms of care; this would recover for the state some of the savings accruing from families choosing lower-cost settings, making it possible to offer vouchers to a larger number of families. A voucher system, however, like direct funding of family day care under the HSBG program, would increase the difficulty of insu. ing compliance with safety and quality standards. In addition, a new administrative mechanism would be required for dispensing the vouchers themselves and collecting fees.

Increasing Targeting on Those Most in Need

Another response to the current fiscal stringency would be to target available child-care assistance more narrowly on those groups that are least capable of purchasing care in the private market. Both the HSBG program and the dependent-care tax credit could be restructured to achieve this goal.

HSBG. Eligibility criteria for the HSBG program could be imposed to place a relatively stringent income ceiling on participation in child-care programs--50 percent of each state's median income, for example. This change, however, would curtail state discretion over the use of these funds--an approach that runs counter to the direction of recent policy changes. It would also exacerbate child-care problems for relatively low-income families with incomes only modestly above the new cut-off, by eliminating them from HSBG child-care programs in those states that presently set a higher eligibility ceiling.3/

The Dependent-Care Tax Credit. The subsidies provided through the dependent-care tax credit could also be targeted more toward lower-income families without increasing the total federal revenue loss.

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3. Little information is available concerning how states have structured their HSBG child-care programs following the creation of the block grant and recent reductions in funding. Anecdotal evidence, however, suggests that some states have responded by reducing the maximum income criterion for eligibility for HSBG services, thus increasing the extent of targeting by income.

One alternative would be to make the sliding scale incorporated into the credit steeper than it is currently. At present, families with adjusted gross incomes (AGIs) below $10,000 can receive a credit of 30 percent of eligible dependent-care expenses; this percentage declines as income increases, with familes that have AGIs of $28,000 or more receiving a credit equal to 20 percent of eligible expenses. The proportion of eligible expenses returned as a credit could be increased for families with relatively low incomes, and that increase could be offset by lowering the percentage for families with higher incomes or by eliminating the credit altogether for families above a specified income--perhaps, for example, an AGI of $50,000.

The targeting of the credit on those most in need could be increased further by making the credit refundable and by incorporating an advance payment provision. While these changes would help some families of modest means, however, past experience--as noted above--suggests that many families with very low incomes would not avail themselves of such a benefit.

Expanding Federal Support

Expansion of federal support of child care could entail increases in direct expenditures, tax expenditures, or both. While federal support could be increased through the creation of a new program--for example, the voucher system noted above--another possibility would be expansion of one or more of the three largest current federal programs: the Human Services

Block Grant (HSBG), Head Start, and the dependent-care tax credit. Any expansion, however, would require higher taxes or greater deficits unless offsetting reductions were made elsewhere in the budget.

HSBG. Expansion of HSBG child-care funding would be straightforward in some respects, since the state agencies that operate the program have substantial experience with day-care programs and since the program (at least in its former, Title XX form) focused on the provison of such services to the population of low-income very young children that is currently growing rapidly.

A number of difficult issues would arise, however, if HSBG funding was increased. Because of the Reconciliation Act of 1981, HSBG no longer includes a set-aside for day-care services; unless such a set-aside was re-established, funneling of additional funding into child-care services could not be guaranteed.4/ Similarly, the 1981 act removed the two targeting provisions of then-Title XX: a fairly generous income ceiling for eligibility and a set-aside for public-assistance recipients. The absence of such provisons could limit the Congress's ability to channel additional child-care funds to the growing population of very young children in poverty. Targeting requirements or set-asides could be re-established, however.

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4. Anecdotal evidence suggests that child-care services have borne a disproportionately large share of recent HSBG funding cuts.

If historical precedent was followed, additional child-care funding under HSBG might be directed primarily into center-based care for preschool children--those aged 3 to 5--unless provisons were added to the law to encourage additional diversification of child-care services. Channeling all funding into preschool center care would leave unaddressed the growing needs for infant and after-school care. The Congress could address these needs by requiring that a specified proportion of additional funds be channeled into infant care, after-school care for elementary-school children, or both. If collaborative arrangements with local education agencies were fostered, encouraging after-school care could be a cost-effective alternative, in that social service agencies could reduce overhead by making use of school facilities underused in the after-school hours.

Head Start. Expansion of Head Start might be easily implemented, given that Head Start programs are already well established in a large number of communities. Expansion of Head Start would also have the advantage of targeting the additional funds toward the rapidly growing population of low-income children. Unless the program was fundamentally restructured, however, the additional services would be limited to 3- to 5-year-old children.

If Head Start funding was increased, the Congress could choose between expanding the number of eligible children receiving the current mix of services or providing longer hours of care to the number of children now

served. In addition, if longer hours were established, they could be provided at either current or reduced levels of service intensity. The effects of these alternatives--for example, their impact on the employment of mothers, cost per child served, or quality of care--are unclear, however.

Dependent-Care Tax Credit. Unlike current direct expenditures for child care, tax expenditures--that is, the revenue loss--under the dependent-care tax credit will automatically increase if the growing number of eligible families make use of it.

If the Congress decided to increase tax expenditures under this credit beyond the increase that will likely occur in the absence of policy changes, one option would be to increase the maximum expenditures eligible for the credit in the case of infant care--perhaps care during the first year or 18 months of life--because infant care of a given level of quality is substantially more expensive than comparable care for toddlers. Currently, the maximum expenditure eligible for the credit if only one child's care is considered is $2,400 per year--roughly $9.60 per work-day over 50 five-day work weeks. To purchase family day care at a child-to-caretaker ratio that many parents and child-development experts would consider adequate for an infant would cost considerably more than this. For example, the cost of one caretaker caring full-time for two infants would generally be at least $4,100 per year per infant; if three infants shared one caretaker, the cost would generally be at least $2,750 per child.5/ Accordingly, increasing the maximum expense eligible for the credit could improve the access of moderate-income families to infant care of that quality.

Encouraging Greater Employer Involvement in the Provision of Child Care

Business tax incentives are the principal vehicle through which the federal government could encourage employer participation in the provision of child care, although new loan programs could also be adopted. It is important to note, however, that recent surveys indicate that only a small share of employers would be likely to become involved in providing child-care for their employees, even if current incentives were expanded, unless almost all of their increased costs were reimbursed through reduced tax liabilities.6/

In lieu of the present practice of deducting child-care contributions as business expenses, a tax credit could be designed that would allow employers to claim a specified percentage of incurred child-care expenditures against their tax liability. Such a tax credit would have to be substantial, however, to provide a greater benefit than is already available to firms through the deductibility of child-care costs, and would thereby increase the associated revenue loss. Unlike some state tax provisions, the credit would need to be available for partial as well as full subsidies of employees' child-care expenses, since partial subsidies are the norm in employer-sponsored arrangements. In addition, a broad definition of allowable expenditures that

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5. Assuming 5 days per week, 9 hours per day (to include one hour of commuting time for the working parent), 50 paid weeks per year, compensation at the minimum wage, and employer payment of the employer's share of payroll taxes.

6. U.S. Department of Labor, Women's Bureau, Child Care Centers Sponsored by Employers and Labor Unions in the United States (1980) and Child Care Information Service, Survey of Employer-Sponsored Child Care Programs (1981).

included, for example, expenditures for information and referral services and for contracts made with third parties to provide child-care services for employees, would offer employers flexibility in designing programs of child care support tailored to the particular needs of their employees.

As an alternative to tax incentives, a low-interest loan program could be established that would serve both nonprofit and profit-making organizations. Loans could be made available to assist with the start-up costs of establishing a child-care program for employees, such as those associated with constructing or renovating a child-care facility, purchasing equipment, obtaining technical assistance, and paying initial operating expenses. This approach would likely be particularly appealing for small businesses that might otherwise not have the cash available to establish a child-care program. It would, however, add to total federal credit activity--a matter of growing concern--in addition to requiring direct federal expenditures for the interest-rate subsidy.

These approaches would result in either greater revenue losses or increased direct federal expenditures. In the case of tax expenditures, the costs would probably be relatively small, since few firms would likely take advantage of these subsidies unless they were substantial. The specific costs of expanded tax incentives are difficult to estimate, however, because they would depend largely upon the number of additional employers claiming child-care tax benefits. The cost of a low-interest loan program would depend on the interest rate charged, the cost of federal borrowing, and the volume of loans made annually.

Encouraging Employment Changes to Lessen Reliance on Non-Family Care

Reliance on non-family care might be reduced in some cases if employed parents had greater flexibility in arranging their work schedules. Increased availability of part-time work, flexible work hours, and job-sharing might all lessen reliance on non-family care, including, in some cases, publicly supported care. For example, some parents of children in elementary school might choose to work about three-fourths of full time if given the option to do so, in order to be home to care for their children during the after-school hours.

While many aspects of job flexibility could probably not be influenced easily by a federal initiative, changes in federal tax law might have an appreciable impact on the availability of part-time employment. Anecdotal reports suggest that one barrier to seeking part-time employment in some cases is loss of valuable benefits, such as employer contributions to health insurance and pension plans. Such employer contributions are currently deductible from an employer's taxable income, and deductibility could be made contingent on offering a prorated benefit package to part-time employees. For example, deductibility could be made contingent on offering all employees working at least 20 hours a week benefits comparable to those of full-time workers, with the employer's contribution proportional to hours worked by each employee.

The net impact of such a change, however, is not clear. While some employers might continue to permit workers to change to part-time status,

others might respond to the increased cost of part-time employment by reducing the availability of part-time positions or by offering part-time positions only for a smaller number of hours per week than the minimum at which eligibility for fringe benefits was mandated.

OPTIONS FOR CARE OF THE DEPENDENT ELDERLY

Federal support for care for the moderately disabled elderly is now provided on a limited basis, both through the traditional social service programs and the major health care programs, Medicare and Medicaid.[7] Dependent care for the elderly as discussed here includes housekeeping and homemaker services, home-delivered meals, respite care, and adult day care.[8] Most but not all of such services are home-based. The term "home-based care" as used here, however, should be broadly interpreted to refer to social services that help the elderly remain in their homes rather than being institutionalized--including, in some cases, center-based services.

To move from the very limited support of home-based care that currently exists at the federal level to a more comprehensive program could be

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7. Although care for the dependent elderly is normally considered a social service, it is also closely linked to home-health care services and any discussion of options for change needs to consider this relationship. Home-based services and home-health care probably need to be coordinated to function as a viable alternative to institutional care, for example.

8. Adult day care may serve as a less expensive alternative to comprehensive companionship and homemaker services provided on an individual basis. The over 700 current adult day-care programs, provide a great variety of types of services and setting. Consequently, the specific design of a federal program would determine its cost.

very costly--as much as $12 billion in 1984--if home-based care was available and used by all moderately disabled individuals.9/ While such an amount would be only a small portion of the over $209 billion projected to be spent by the federal government on the elderly in 1983, it nonetheless would represent a large expansion of outlays during a period of cutbacks in many discretionary programs. Although some reduction in federal expenditures might be generated by returning a portion of the institutionalized population to their homes, overall federal costs would increase substantially, since the persons served would include many who are not now institutionalized. In addition, costs would rise considerably through the 1980s, if the number of moderately disabled elderly without other sources of support increases as expected.

Provision of some home-based services by the federal government could be accomplished with varying degrees of cost. One option would be to maintain the current level of expenditures, perhaps with changes in the targeting of benefits. Alternatively, additional care could be financed by reducing outlays in related health and social-service programs for the elderly. Although direct provision of services without such offsets would

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9. This estimate assumes that as many as 6 million elderly individuals currently not receiving federal support for home-health services could be eligible at an average cost of about $2,000 each. The $2,000 estimate is based on costs of 52 visits from a home health aide. Visits from nurses or therapists would be considerably more expensive, however. Moreover, delivery of meals and additional visits by home-health aides might also be needed to keep some individuals in their homes. Alternative services such as adult day care might also be funded, perhaps at slightly lower per capita costs.

raise total federal costs, they could be controlled by limiting eligibility or restricting the benefit package. Finally, care for the dependent elderly could be subsidized indirectly through the personal income tax system. Tax benefits for such care would also be costly in terms of lost revenues, but would tend to limit the extent of direct federal involvement. Consequently, four general approaches are discussed below:

- o Maintaining the current level of services;
- o Funding additional social services by reallocating federal expenditures;
- o Expanding the federal role through direct provision of services; and
- o Expanding the federal role through tax benefits for caregivers.

Maintaining the Current Level of Services

In a period of budget austerity, the Congress may wish to maintain the current level of federal commitment--or restrict it further.10/ Families may be viewed as the more appropriate source of support, with the federal government only protecting the elderly against acute health-care needs (through Medicare) or institutional care for those who cannot afford it (through Medicaid). Another reason to limit the federal role is that home-based care is now often provided informally by relatives and friends, and increasingly the private sector is developing such services. In such a setting, increased federal provision of services might raise the costs of such

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10. The impact of P.L. 97-35 on Medicaid, and of P.L. 97-248 which added hospice coverage under Medicare, may result in a gradual expansion in this area without further Congressional action. Since such a trend cannot be predicted at this time, the discussion in this section assumes that, under current law, home-based care will remain a limited portion of Medicaid and Medicare expenditures.

care by establishing stringent reimbursement standards, which in turn could affect choices in the private sector. Moreover, federal provision might merely substitute for private support that would otherwise have occurred.

Home-based care services provided through Medicaid, Medicare, the Human Services Block Grant (HSBG), and the Older Americans Act could be coordinated and limited to a more carefully defined subgroup of the elderly. For example, if all aid were redirected into the Medicaid program, care would be targeted on those with low incomes. Further, care could be reserved for only those with the most severe handicaps, so that it would be more likely to function as a substitute for institutional care.

Funding Additional Dependent Care By Reallocating Federal Expenditures

Arguments for home-based care often are based on the fact that the relative lack of federal support for such services compared to institutional care may distort the choice of health care toward institutionalization, resulting in increased costs to the federal government over time. Higher expenses in the short run from providing more home-health benefits for the elderly might be offset by lower future costs if fewer people entered institutions. The prospect of these long-run savings underlies much of the support for federal provision of home-based care.

To the extent that home-based and related services could prevent or delay institutionalization for some persons, expanding them might preclude the overbuilding of nursing homes that might be stimulated by increases in

the number of elderly. Since home-based care requires much less capitalization, it could more readily be expanded or contracted in response to changes in the demand for services.

If provision of home-based care was combined with careful assessment of persons in institutions to return some patients to their homes, care at lower cost might be provided for some who currently are given institutional support through Medicaid.11/ Moreover, since the elderly generally wish to remain in their homes if care is available there, home-based care may also be preferable from their point of view.

One alternative for expanding care to the dependent elderly while limiting federal costs would be to require that any additional commitment to the elderly be funded by shifting resources from other health and social-service programs for the elderly. Funding could be cut for those social services from which fewer people are likely to benefit in the 1980s. For example, Title III of the Older Americans Act could concentrate on home-delivered rather than congregate meals. Resources could be moved away from general programs for the elderly, since this group as a whole is likely to be relatively better off in the 1980s, and into adult day care and home-based services, for example. The limited size of these programs would restrict the amount available for care to the dependent elderly, however.

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11. The extent of such savings remains open to debate. A good discussion of the often-conflicting evidence is available in Health Care Financing Administration, Long Term Care: Background and Future Directions, Office of Policy Analysis (January 1981).

Funds for dependent care for the elderly could also be obtained through reducing coverage under Medicare or Medicaid. If the new benefits were provided under Medicare, however, it would be difficult to limit services, since that program covers over 29 million aged and disabled persons. If Medicaid was used instead, even a federal commitment of only $1 billion for dependent care, for example, would displace about 12 percent of the medical services expected to be provided to the elderly under this program in fiscal year 1984.

Expanding the Federal Role Through Direct Provision of Services to the Dependent Elderly

The Congress might wish to consider options for expanding federal participation in this area without requiring reductions in other health and social-service programs. As discussed above, such a program could cost as much as $12 billion in 1984, but it could be designed to limit participation or benefits.[12/] The level of expenditures necessary to provide home-based services to the elderly would largely depend upon four factors:

- How medical eligibility would be determined;
- Whether participation would be limited by additional criteria such as level of income;
- Whether participants would be required to contribute to costs; and
- What mix of health and social services would be included.

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12. To put this amount in context, if such a $12 billion program was introduced through Medicare and financed by a mandatory premium, that benefit alone would cost enrollees about $37 per month in 1984.

Determining Medical Eligibility. Perhaps the greatest problem in controlling costs of home-based care stems from the difficulty of determining who should receive such services. Provision of home-based care by the federal government could lead almost immediately to a large increase in the number of elderly persons served by health and social-service programs unless restrictions were placed on participation.

One approach would be to limit eligibility to persons who are currently institutionalized. Such a restriction would enhance the potential for cost savings through substitution of home-based services for institutional care. The requirement might prove, however, to be less restrictive in practice than it initially appears. If institutional beds freed by such a program were immediately filled by other physically impaired elderly persons, the numbers of home-based care recipients would rise over time with no corresponding decrease in the institutionalized population--at least until all those seeking care were being served.

Income Testing and Other Restrictions on Participation. Eligibility for home-based care services could also be limited to persons in financial need for whom the cost of home-based care would be less than the cost of institutionalization. For example, less than 16 percent of all the elderly had incomes below the poverty line in 1981, so restricting aid to this group would limit the costs substantially, even if a greater than proportional share of the homebound elderly are poor.

One way to achieve such a restriction would be to provide home-based care services through Medicaid. Indeed, some of the necessary legislation is already in place. P.L. 97-35 allows states to apply for waivers to provide home-based care, but requires that such endeavors be limited to the number who could be served by institutions. Just over one-fourth of the states have been granted such waivers, but additional effort might be needed to encourage expansion in this area.

Cost-sharing by Patients. Requiring recipients of home-based care to share in the costs of services could help to limit participation and thus hold down total expenditures. Since many elderly persons may have private sources of such support--from relatives, for example--they would be less likely to seek federal help if they were charged a percentage of the costs of that aid. A cost-sharing requirement would probably be particularly important for a program that made services available to all physically impaired elderly. If services were restricted to low-income persons, the level of cost-sharing might have to be limited in order for anyone to be able to afford to participate. The cost of this type of program would depend both on the amount of cost-sharing required and on the extent to which participation would be lower in response to the cost-sharing.

The Mix of Services to Be Provided. Under the current system of home-based care, an elderly person in a particular state might, for example, receive only meal services, even if physical limitations prevented that person from performing other household chores. Such a partial approach may

fail over time to avoid the institutionalization of many disabled elderly. Thus, while only partial aid may be less expensive, it may also be unable to serve as a viable alternative to institutional care.

Not all services would have to be provided on an individual basis in the home, however. To the extent that an individual remained somewhat ambulatory, daytime supervision in a group setting--adult day care--might constitute a viable and less expensive option. Little information is available on the costs or types of persons now being served by adult day-care centers, however.

Expanding the Federal Role Through Tax Benefits for Caregivers

Another broad approach for increasing the federal role in home-based social services would be to leave responsibility with families of the elderly, while providing additional subsidies for such care through the personal income tax system. Specific options include deductions or credits based on a proportion of expenses incurred for care, or personal exemptions for families providing care to an elderly relative.

The effectiveness of any tax benefit would depend on the extent to which families would be induced to provide additional support to their relatives--that is, over and above what they now provide. Would partial compensation from the government--through reduced tax liabilities--cause persons to aid their elderly relatives more? The strength of family ties is likely to be a more important determinant of such aid. Since the aged

currently have considerable contact with relatives, especially their children, the tax benefit might compensate primarily those individuals who are already providing care rather than increase the participation of other relatives. Such a tax benefit might still be desirable, however, if it extended the amount of care or the period over which relatives were able to provide support to home-bound elderly.

In addition, tax benefits for relatives who provide home-care services would vary considerably, depending on the specific provisions. If only purchased care was covered, the tax benefits would tend to be restricted to families at higher income levels. Moreover, depending on the form of tax relief, the incentives to participate could vary more with the income level of the providing family than with the needs of the elderly recipient of the services.

Deductions or Credits. Allowing deductions from taxable income or a credit against taxes for aid provided to an elderly relative would be one means of encouraging additional care. The value of deductions to taxpayers would increase with income--the higher the tax bracket, the greater the value of the deduction. Credits, on the other hand, would provide equal reductions in taxes to all taxpayers making the same contributions to their elderly relatives regardless of income. Low-income families whose tax liabilities were below the level of a nonrefundable credit would, however, receive only reduced benefits or none at all. Refundable tax credits could extend the aid to low-income families, but only to the extent that they filed for the credit.

A tax deduction or credit for providing dependent care would probably have to be available to relatives living in different households--otherwise, benefits would be restricted to a very small percentage of families. Household aid of this sort would be difficult to verify, however, particularly since aid received is not considered income to the recipients for income tax purposes and is only subject to a gift tax when an individual receives more than $10,000 from one individual in one year.

To improve verifiability, the deduction or credit could be restricted to the purchase of home-care services for relatives--private nursing visits, for example--since there would be formal records for verifying the tax credit. This approach would discourage relatives from providing services themselves, however. Further, families with low incomes might not be able to purchase care if partial reimbursement was provided through the tax system.

Exemptions for Dependents. Another alternative would be to allow persons to treat the supported relative outside the home as a dependent, claiming a personal exemption if a given number of hours of care was provided or a minimum expenditure was made.13/ This would avoid the problem of placing a dollar value on time spent in caring for an elderly relative. On the other hand, such an exemption would be worth more to higher-income families than to those with low incomes, since exemptions reduce taxable income, and verifying the hours of care would be difficult.

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13. This option is already available for persons who contribute more than one-half of the support of the relative. However, this tax benefit is not currently available for those who provide aid in the form of direct services.

APPENDIX A. METHOD OF ESTIMATING THE PROPORTION OF CHILDREN LIVING IN DIFFERENT TYPES OF HOUSEHOLDS IN 1990

The projections in this study of the living arrangements of children in 1990--that is, of the proportions living with both parents, with mother only, with father only, and with neither parent--should be considered only rough estimates. They were derived by a method that hinges on a possibly questionable assumption; moreover, the trends on which they are based have been somewhat erratic over the past seven years.

CBO was able to locate one relevant projection by demographers, but that projection (see Table A-1) considered all children under 18 as a group. Accordingly, the following method was devised to combine the projections in Table A-1 with projections by the Bureau of the Census of the age distribution in 1990 (Table 1) to estimate the proportion of children under the age of 6 and between the ages of 6 and 9 in each household type.

The first step in the procedure was to calculate from Table A-1 the extent to which projected 1980-to-1990 trends among all children under age 18 are expected to differ from comparable 1970-to-1980 trends. For example, Table A-1 projects that the proportion of children in mother-only households will continue to grow during the 1980s, but at a slower rate than during the 1970s. For each household type in Table A-1, a factor was esti-

mated that generated the difference between the 1970-to-1980 and the 1980-to-1990 trends.

TABLE A-1. LIVING ARRANGEMENTS OF CHILDREN UNDER AGE 18: 1970, 1980, AND PROJECTIONS FOR 1990 (Percent distribution)

Living Arrangement	Actual 1970	Actual 1980	Projected 1990
Total Number (in thousands)	69,162	62,064	64,322
Living with Two Parents	85.2	76.6	71.0
Living with One Parent	11.9	19.7	25.0
With mother only	10.8	18.0	23.0
With father only	1.1	1.7	2.0
Living with Neither Parent	2.9	3.7	5.0

SOURCES: Figures for 1970 are from the U.S. Bureau of the Census, Marital Status and Living Arrangements: March 1980, Series P-20, no. 365 (October 1981). Figures for 1980 are from the U.S. Bureau of the Census, Characteristics of American Children and Youth: 1980, Series P-23, no. 114 (January 1982). Projections for 1990 are from Paul C. Glick, "Children of Divorce in Demographic Perspective," Journal of Social Issues, vol. 35, no. 4 (1979).

As a second step, tabulations were obtained from the decennial censuses showing the proportion of children under age 6 and the proportion age 6 through 9 living in each household type in both 1970 and 1980. For each age group and household type, the 1970-to-1980 trend was projected to 1990 to give a first estimate of the proportions of children in each type of household in 1990.

As a final step, the initial estimates of proportions in 1990 obtained in the second step were revised by applying to the projected 1980-to-1990 trend in each household type the factors derived for each household type in step 1.

The effect of this method can be illustrated by considering a single household type. The proportion of children in single-parent families has been growing in all three age groups considered: birth to 6, 6 to 10, and birth to 18. The proportion differs from age group to age group, however, as does the rate at which the proportion has been growing. This method maintains those differences, but it assumes that those differing rates of increase will all slow by comparable amounts between 1980 and 1990.1/

To the extent that this assumption is incorrect, the projections used here will be in error. It is very unlikely, however, that they would be sufficiently in error to change any of the conclusions discussed in this memorandum.

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1. What is meant in mathematical terms by saying that the differing rates of growth were reduced by "comparable" amounts? The method began by normalizing the proportions (using a logit transformation). Table A-1 was used to obtain the arithmetic difference between a linear extrapolation to 1990 of the transformed proportions and the projected proportions, separately for each household type. These differences were then subtracted from linear extrapolations of the comparable proportions among the smaller age groups, also in transformed form. Reversing the transformations then yielded the projections used in Table 2.

   Linear extrapolation of the transformed proportions would mean that the odds of being in a given household type would increase by the same ratio from 1980 to 1990 as from 1970 to 1980. Applying the correction factor described above changes that ratio by a multiplicative factor that is the same for all age groups but different for each household type.

The second source of potential error in these projections is that the increase in the proportion of children living in mother-only households has been erratic in recent years, particularly in the under-6 age group. The more erratic the trends, the more uncertain are any projections, because there can be substantial disagreement about the "true" trend that underlies the erratic historical pattern.

For example, between 1970 and 1980, the proportion of children living in mother-only households grew from under 10 percent to about 15 percent. This increase, however, occurred between 1970 and 1975, and the proportion remained nearly constant from 1975 to 1980. In the last few years the trend has again turned upward, and in 1982 it reached an adjusted level of about 17 percent.2/

In Table 2 in the body of this report, the proportion of children under age 6 living in mother-only households is projected to rise to 19 percent by 1990, from 15 percent in 1980. The estimate of 19 percent could be criticized as either too high or too low on the basis of the erratic trend just described. For example, one might infer from the lack of increase from 1975 to 1980 that the growth in this proportion has largely ended and that the increase over the past few years is likely to be an isolated event. In that case, one might not anticipate continued growth from the current 17

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2. The proportion that will be reported in forthcoming Census publications is 19 percent. Part of the increase, however, reflects a change in CPS questions that was described in Part I. If the effects of the change in questions is removed to make the number comparable to those reported in earlier years, the resulting adjusted proportion is roughly 17 percent.

percent to the projected level of 19 percent. Alternatively, one could emphasize the rapid change that occurred between 1980 and 1982 and argue that since the proportion has grown in two years by half the amount projected for the entire decade, the projected level of 19 percent in 1990 is too low.